

National Association of Purchasing Management

Report On Business®

July 7, 1986
Volume 4, Number 7

Purchasing Index Declines to 49.6%

New Orders and Production Fall

Inventories Drop

June Report

The economy dropped sharply in June, say the nation's purchasing managers in their latest **Report on Business**. The Purchasing Managers' Index fell to 49.6% from 54.4% in May. Production levels were down dramatically; new orders were at their lowest level since December 1985. Employment and inventories also declined. Another signal of a weaker economy was the improvement in the speed of vendor deliveries. And, for the first time in nineteen months, more purchasers reported prices as being higher rather than lower. In answer to special questions, 47% of members reported receiving price decreases in other products as a result of the world-wide drop in oil prices. However, 69% said they did not anticipate future price decreases in other major products as a result of lower oil prices.

"The economy did a complete turnaround in June after registering a strong increase in May. With every indicator off, we're going to have to watch the next few months very carefully to see if this continues," said Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers' Composite Index** decreased sharply to 49.6% after a significant rise to 54.4% in May. This is the largest drop since January 1984 when the index went to 60.9% from 70.4% in December 1983. The 49.6% in June is the second month in 1986 in which this leading indicator has fallen below 50%. A reading below 50% generally indicates that the economy is in a declining phase: above 50%, that the economy is generally expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

After registering a significant improvement in May, employment levels fell in June to the previously depressed levels. Members reporting lower employment in June increased to 22%, after reaching a 20-month low in May (17%).

	Higher	Same	Lower	Net Differ.
Employment %				
June	11	67	22	-11
May	13	70	17	-4
April	14	64	22	-8

Buying Policy

Lead times lengthened in June for all categories of purchases. The 18% who reported lead times of 90 days and over is up from 13% in May; this is the highest percentage since May and June 1985 (also 18%). In capital expenditures, lead times expanded for the second consecutive month in the six-months-and-longer category to 56%, up from 54% in May; this is the highest number reported since April 1985 (also 56%). Lead times for MRO supplies lengthened the least, with 88% reporting lead times of 30 days or less, which is down from 90% in May.

	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
Production Materials %					
June	18	40	24	12	6
May	21	40	26	7	6
April	16	46	22	10	6
MRO Supplies %					
June	45	43	7	4	1
May	44	46	7	3	0
April	41	46	9	1	3

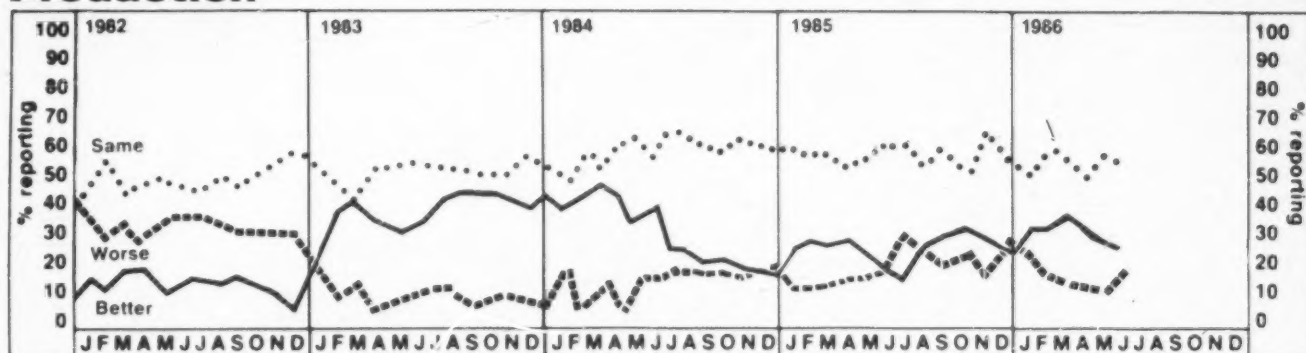
Capital

Expenditures %					
June	14	6	7	17	56
May	16	10	4	16	54
April	17	4	5	21	53

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The **Report on Business** is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

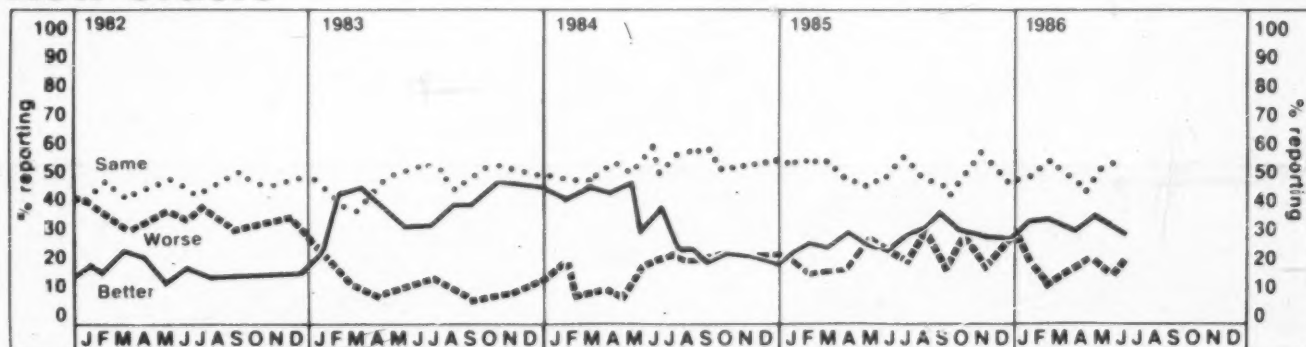
Production



Production fell in June after being strong throughout the past five months. The 25% who said their production level was better is the lowest percentage since December 1985 (21%). The 20% indicating worse production is the largest percentage reported since January 1986 (also 20%).

Production %	Better	Same	Worse	Net
June	25	55	20	+ 5
May	28	56	16	+12
April	32	50	18	+14

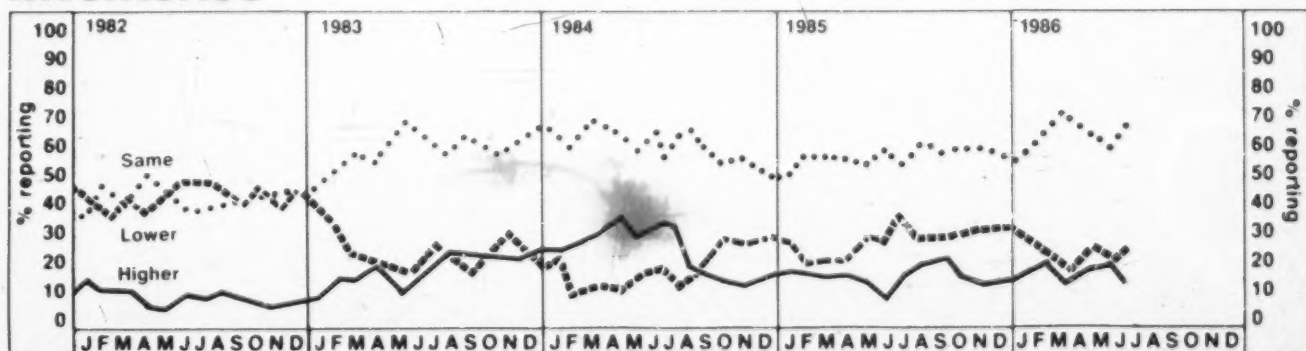
New Orders



New orders slipped significantly in June. Members reporting better new orders fell to 27% from 34% in May. This is the lowest percentage reported since November and December 1985 (26%). Those reporting their new orders as worse (19%) are the most since December 1985 (28%). This key indicator should be watched carefully in the coming months.

New Orders %	Better	Same	Worse	Net
June	27	54	19	+ 8
May	34	51	15	+19
April	37	45	18	+19

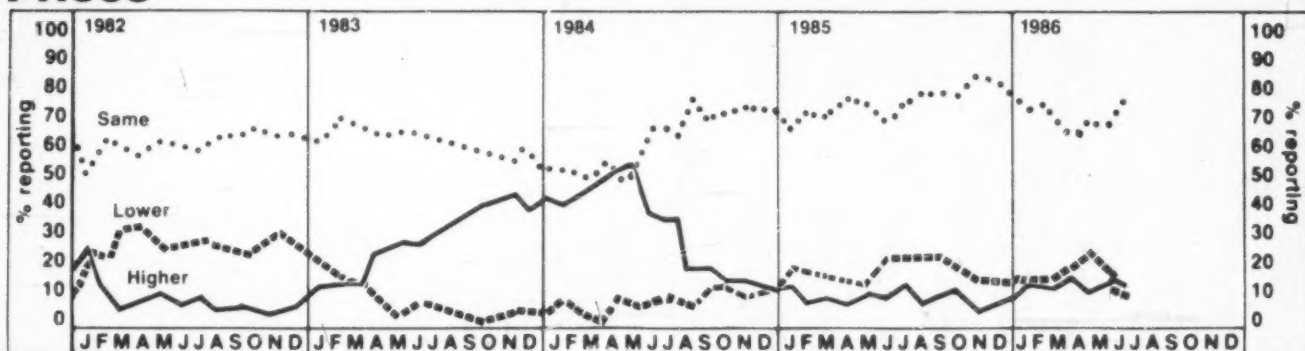
Inventories



After increasing significantly in May, purchasers reported much lower inventories in June. The 24% reporting lower inventories in June is twice as high as the 12% who indicated that their inventory levels were higher. These levels have not been seen since December 1985.

Inventories %	Higher	Same	Lower	Net
June	12	64	24	-12
May	19	59	22	- 3
April	14	62	24	-10

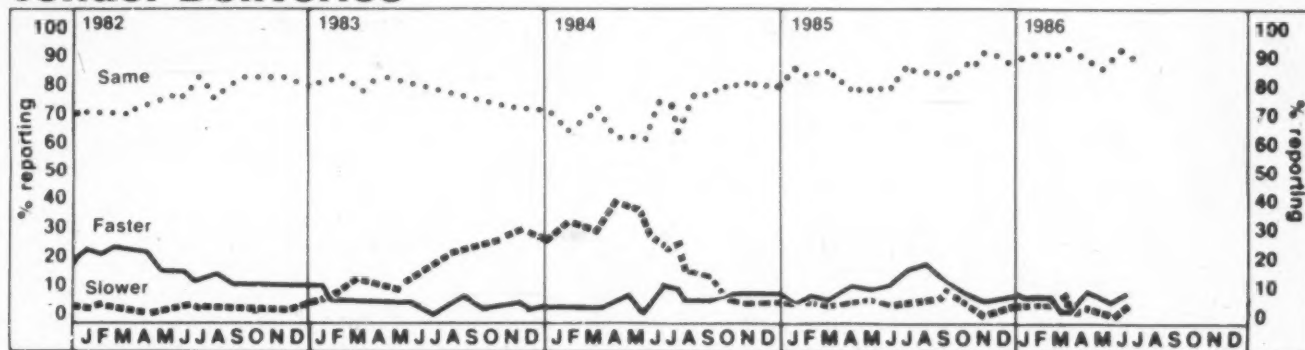
Prices



For the first time in nineteen months, more purchasers reported paying higher, rather than lower, prices. The 10% reporting lower prices is the smallest percentage since November 1984 (9%). Only 31% of members expect to see further price declines in major products, such as chemicals, plastic resins, polyvinyl chloride, and rubber, as a result of past oil price decreases.

Prices %	Higher	Same	Lower	Net
June	12	78	10	+ 2
May	16	67	17	- 1
April	11	68	21	- 10

Vendor Deliveries



The speed of vendor deliveries improved moderately for the second consecutive month. This confirms the slowing of production reported in June.

Vendor Deliveries %	Faster	Same	Slower	Net
June	7	89	4	+ 3
May	4	94	2	+ 2
April	5	88	7	- 2

Specific Commodity Changes

For the third time in the last four months, titanium dioxide was reported in short supply. This is the only item to be reported in short supply in the last seventeen months. Corrugated shipping containers were reported up in price in June for the third consecutive month. Aluminum was reported higher in price for the fourth time in the past six months, after being reported lower in price from June through November 1985. Only three items were reported lower in price in June; this is the smallest number of lower-priced items to be reported since May 1985 (also three items). Fuel oil was reported

lower in price for the sixth consecutive month, but no other petroleum products were reported lower. Plastic resins and products were also reported lower priced.

UP in Price: Corrugated shipping containers and aluminum

DOWN in Price: Fuel oil and plastic resins and products

In SHORT Supply: Titanium dioxide (a lead-free pigment used heavily as a whitener in coatings and other industrial applications)

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available August 4, 1986.

Commodity Reports

Wood Products

Prepared by the N.A.P.M. Wood Products Committee; chairman, Roy Carter, C.P.M., Roseburg Forest Products Company, Roseburg, OR.

As of June 4th, the forest products industry is in turmoil. Home building in all sections of the country is the most active, which guarantees a high consumption rate of industry products. Distribution and consumer inventories in the early spring appeared to be somewhat larger than normal. Contributing to the turmoil is the threat of labor difficulties developing during contract negotiations at pacific northwest manufacturing operations. Since contract negotiations are continuing and there have been no production disruptions noted, the consuming segment of the industry is reducing inventories. This has resulted in a minimal volume of business being placed with the manufacturers. As a result, prices on most plywood and lumber commodity items have fallen drastically. It is expected that buyers who are prone to react in unison will, at some point, reenter the market and reverse the downward pricing trend. Rapidly escalating prices may follow, fueled by shortages and extended order files. The consumption of forest products is deemed to be at too high a level to prevent these developments.

Non-ferrous Metals

Prepared by the N.A.P.M. Non-ferrous Metals Committee; chairman, George R. A. Milne, C.P.M., Delta Faucet Company, Indianapolis, IN.

Copper

During the first six months of 1986, copper prices and supply were very stable. Cheaper dollars and lower interest rates resulting in higher prices (which were expected by U.S. producers) were not realized. Comex values ranged between 62 to 68 cents per pound. Comex inventories dropped about 7 percent, but remain reasonably adequate.

Most labor contracts between the USW and major copper producers expire June 30, 1986. Consensus suggests that neither party can tolerate a long strike: The non-union competitive pressure and advantages of Phelps Dodge make major concessions inevitable, while producers' low margins and

cash flow concerns inhibit their ability to delay settlement for long. Therefore, disruption in supply is expected to be slight. Strike-free rod mill capacity is sufficient.

Worldwide production in 1986 is expected to exceed demand slightly; this imbalance will increase further in 1987 and 1988. Increasing production through the use of the inexpensive solvent extraction-electrowinning process, while having a salutary effect on cost, should also act to mitigate against any significant rise in prices.

Copper prices should remain in the same general range as they are currently, barring major work stoppages, changes in currency values, or inflation. Except for occasional dislocations, supply should remain adequate. (Frederick C. Burke, Rea Magnet Wire Company, Fort Wayne, IN)

Zinc

Early 1986 hopes for improved zinc market conditions fizzled in the first quarter as heavy discounting forced zinc prices down to around 30 cents per pound in March. Producers reacted by revising list prices to better reflect actual selling prices and by reducing discounts. Announced production cuts aimed at correcting the long-term oversupply situation have been slow to materialize. However, steady demand, pending labor negotiations, and planned maintenance shutdowns in the second and third quarters have firmed the market. The prices have strengthened, resulting in 33 to 34 cents per pound prices in May.

The true test of zinc market stability is expected this summer when zinc demand historically slumps. If supply and demand remains relatively balanced and producers resist the temptation to discount, higher prices are imminent. Conversely, overzealous price moves and heavy discounting could reverse the upward trend. (Victoria P. Radick, National Steel Corporation, Pittsburgh, PA)

Cadmium

After the dull fourth quarter of 1985, cadmium demand was up sharply. Prices increased from the mid 70 cents per pound range to the current domestic producers' level of \$1.50 per pound. The current price levels are attributed to a number of reasons. Availability of the Chinese cadmium ingot has slowed down, possibly as a result of larger sales to eastern block nations. Visual stocks and zinc production are both down.

There is also an indication that zinc ore, especially that coming from newer mines, is lower in cadmium content which could contribute to possible future shortages.

Although cadmium is under assault by environmental agencies, its use has actually increased over the past five years. (Cadmium is still a very viable product to a number of industries, i.e., batteries, metal finishing, pigments, etc.) The Swedish exemption to the ban, which was to expire at the end of 1985, has been extended to the end of 1987. The domestic Notice of Intent to add cadmium to the list of air pollutants is now undergoing a review by the EPA; their full report is not expected for another two years.

Market conditions are still strong; however, some users have adapted a "wait and see" approach before purchasing, hoping that prices will soften during the historically slow summer months. This slow down should ease prices somewhat; however the price of cadmium could easily reach as much as \$1.75 per pound by the end of September 1986. (Wilfred P. Brandes, Kraft Chemical Company, Melrose Park, IL)

Lead

The number of U.S. lead producers continues to drop due to shrinking demand and low prices. Homestake Mining purchased Amax's portion of the Buick mine and smelter, thus reducing the number of U.S. primary producers to four. Two secondary producers (Bergsoe at 27,000 tons per year and Tonolli at 36,000 tons per year) have ceased production. Asarco announced production cut backs at their East Helena and Omaha smelters. Homestake has closed the Buick smelter until further notice, while St. Joe Lead announced their Herculeum Smelter will be closed for most of July.

To add to this unsettled picture, new EPA legislation becomes effective July 5th. This law will require secondary smelters to purchase environmental liability insurance, which currently is not available. Given these circumstances, it is not clear what the outcome will be.

With production dropping and the number of producers decreasing, the price of lead is expected to rise to the 20 to 23 cents per pound range. If the EPA legislation knocks out a significant number of secondary producers, spot shortages and even higher prices might be expected. (T.A. Parker, Exide Corporation, Horsham, PA)